

# Corporatism

## Opportunity or obstacle for the economy and democracy?

(Translation by Karen Scott-Leuteritz)

Labour-market and social policy traditionally have a strongly corporatist character in Germany. Yet the legitimacy and efficiency of corporatist structures are called into question especially by the liberals. However, empirical evidence has shown – not least in the way that the recent economic crisis was overcome – that employers and employees tend to benefit from the German model of the regulation of interests.



In market-based societies employees and firms have both conflicting and common interests. In order to be able to work together productively, these interests have to be united. As history and international comparisons have shown, there are very different ways of doing this: as a constraint, a battle or a compromise, with wildcat and organised strikes, with mass movements, sabotage, lockouts and negotiations, with legal action, government decrees or police operations.

Germany's firms are considered to have comparatively few strikes and conflicts; traditionally there is a distinct division of work between the firm, industry and state levels. One characteristic of this is that the level of individual establishments and companies is relieved of the burden of conflicts due to numerous points of disagreement being negotiated and decided by the well-organised, large-scale organisations of the social partners at industry level. Even though this division of work and its effectiveness are subject to change, the basic structure remains formative. These large-scale organisations, often known as corporations, additionally play a key role at all levels of economic and political life – nominating honorary judges for employment tribunals, working out training guidelines, supporting negotiation partners in firms and the social security supervisory bodies and advising the federal and regional governments.

This political framework, known by the generic term "corporatism", has shaped the German economy from the very beginning. At the same time the phenomenon has always come under controversial discussion. Is corporatism the precondition for an economy's productive forces to be able to develop undisturbed? Or is it more the case that it hampers the players in important decisions? Does it prevent justified individual interests from being able to make themselves heard and to win through? Is it even undemocratic, as some critics argue?

### Direct participation in the political process

"Corporatism" is a well-established term from political science, political sociology, the sociology of work and industrial sociology. The systematic point of departure is

that interests are not introduced into the political decision-making process by individuals, but in an organised, collective form. The concept of corporatism describes two related facts. First, economic interests are introduced into the formal political process in an organised form. Second, in the formal political process, structures have become established which provide for a direct participation of organised economic interests in political decision-making.

This can be illustrated by two examples: striking Bolivian miners whose strike is brought to an end violently by the police have nothing to do with corporatism. Although the miners' economic interests are organised, they are not involved in the formal, established political process. Conversely, it is a classic corporatist political model when the German chancellor invites the German Federation of Trade Unions and the Federal Confederation of German Employers' Associations to a summit that results in industry committing to an increase in the proportion of women in top jobs. Established institutions in which the organised economic interest groups enter negotiations with one another in a setting created by themselves or by the state are also characteristic of corporatism.

### Authoritarian corporatism versus neo-corporatism

In political science a distinction is made between authoritarian corporatism and neo-corporatism. In the literature of political science, authoritarian corporatism has frequently been associated with conservative and nationalist trends – from Catholic Social Teaching to Fascism – which strove for a kind of hierarchically organised class state without class conflict by reverting to pre-modern compulsory associations. Whether this is correct in terms of history in general and the history of ideas is to be left aside here; especially the classification of Catholic Social Teaching seems problematic in the meantime.

In contrast, today's western societies speak mainly of neo-corporatism. This is generally also meant when "corporatism" is mentioned casually. The most important difference from authoritarian corporatism is that the associations are generally not imposed by the state but develop from the bottom up and have largely democratic internal

structures. In practical terms, however, Germany not only has many voluntary member associations but also continues to have legally sanctioned compulsory corporation memberships, for example the Chambers of Industry and Commerce and the Chambers of Trade, or the Chambers of Labour in Bremen and the Saarland. Chambers of Lawyers and other chambers possess a quasi-monopoly in which it is not possible to practise the profession independently without being a member of the chamber – comparable with the British “Inns of Court” for barristers.

#### Forms of tripartite governance

Tripartism is regarded as the most highly developed form of neo-corporatism, comprising not only employers and trade unions but also the state as a key player. A classic form of tripartite governance, albeit one that proved unsuccessful in the long term, was the “concerted action” of the late 1960s and early 1970s, which was intended to achieve coordination between the state and the social partners with regard to economic policy. Current examples of tripartite bodies are the “Economic and Social Coun-



cil” in the Netherlands or the Board of Governors of the German Federal Employment Agency. The “Alliances for Jobs” (“Bündnisse für Arbeit”), which were launched in the 2000s, were also tripartite rounds of negotiations.

The historical roots of corporatism go back to the early modern period. In the Free Imperial Cities, for example, brotherhoods and guilds of people with common occupational and economic interests emerged, which not only regulated their internal relations and their market behaviour but also brought their interests into the town councils and articulated them before princes and sovereigns. The respective sovereign princes also integrated these corporations into their decisions, above all by means of formalised advisory processes or estate assemblies, the forerunners of parliaments. The corporatism that outlasted even the 19th century in Germany underwent a radical change in the 20th century with the integration of the trade unions and the internal democratisation of the associations.

#### Low levels of corporatism in the USA

When examined internationally, organised economic interests, whether those of employers or of employees, can be found in virtually all developed societies. Only when institutionalised relations exist between these interest groups can one actually speak of neo-corporatism. Lobbyism alone is not neo-corporatism, as it does not involve formalised relations but rather informal attempts to exert influence. Thus the USA is considered a country with low levels of corporatism, since the large economic associations and individual players have considerable influence on politics, but scarcely in a formalised way. Centralised, industry-wide wage negotiations, such as in Germany, are rare there. Firm-specific negotiations dominate.

Great Britain experienced a pronounced phase of corporatism in its history, from the end of the Second World War until 1980. The National Coal Board, founded in 1946, was the highest decision-making body for the coal mining industry, borne by the government, employers and trade unions. It was later dissolved by the British Prime Minister Margaret Thatcher – a decision that can be regarded as symptomatic of the crushing of corporatist

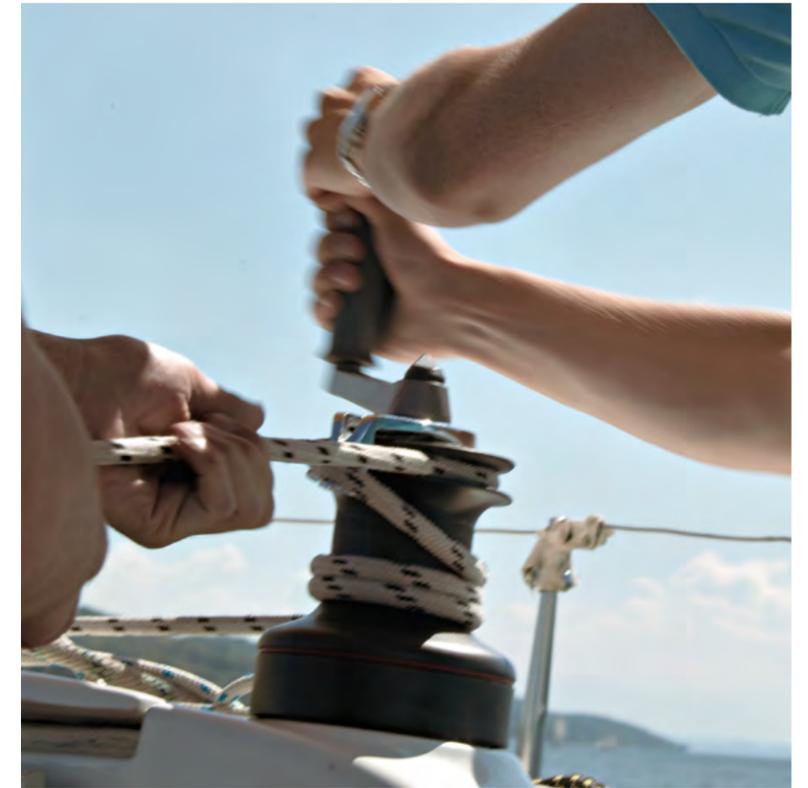
structures in the Thatcher era. While there was also talk of “progressive corporatism” in British debate, such as that promoted by the Labour governments prior to 1980 for example, in current debate surrounding fundamental patterns of the welfare state, neo-corporatism is frequently associated with the “conservative welfare state”, to which Germany and France are typically also assigned.

#### Policy areas with a corporatist character in Germany

Policy areas that still have a strong corporatist character in Germany today are labour-market and social policy and their institutions, for example the social security bodies. The boundaries of the concept of corporatism prove to be unclear in practice, however. Thus, for instance, it could by all means be described as (neo-)corporatist when the Federal Government listens to associations of the pharmaceutical industry, the health insurance companies and doctors’ organisations before amending a law, even if these talks do not have a regular form and no decisions are made directly there. The same applies for the discussions preceding a parliamentary decision regarding the regular rate of basic income support, in which the social organisations are very strongly involved. Another example of a corporatist structure is the minimum wage commission started recently by the Federal Government and chaired by the former Lord Mayor of Hamburg, Klaus von Dohnanyi. Its members include scientists, employer representatives and trade unionists. The aim of the commission is to observe industries with low collective bargaining coverage and to make suggestions for minimum wage levels.

#### Criticism of corporatism

Corporatist policy forms have always been criticised by various parties. This criticism has been prompted above all by three points: selectivity, legitimacy and efficiency. As regards selectivity, the classical criticism made by the labour movement before 1918 was that they were excluded from corporatist regulation processes. In the meantime, following the successful march through the institutions, this is known to have changed.



Yet even today there are groups that are excluded from decision-making processes characterised by (neo-) corporatism. Organisations representing asylum-seekers, for example, generally have no say when asylum laws are amended, illegal foreign workers have no influence on changes in labour legislation, patient organisations have difficulty influencing health policy, and several small and medium-sized enterprises have long felt inadequately represented by the industrial associations. People insured by the Federal Employment Agency are represented more indirectly – via the trade unions. And the recipients of basic income support themselves have so far not played any role in setting the benefit rates.

In addition, the legitimacy and efficiency of corporatist structures are questioned – two dimensions of criticism that coalesce in a peculiar way in liberal hypotheses: according to this interpretation, market processes are not only more efficient but also more legitimate because the participants have asserted themselves in competitive procedures, whereas corporatist processes neutralise competition at least partially. Empirical findings on this issue are available



for only a few fields of action, though the low incidence of strikes in Germany and the correspondingly small amount of economic damage are regarded as evidence of the superiority of the corporatist model of centralised wage bargaining. Furthermore, firms and businesses are relieved of the burden of local, establishment-level, group-specific and individual wage negotiations.

The establishment of a nationwide public employment service with a corporatist structure in 1921 was also an important step towards more efficiency, replacing the former patchwork of public, association-led and private institutions that were often characterised by a lack of transparency, by special political interests and short-term profit aims. (Neo-)corporatist policy structures are considered less prone to external crises and are more suitable for yielding long-term decisions.

In contrast, there is a certain sluggishness with regard to innovations and change processes – according to literature in the field of political science. From the viewpoint of social history, however, it must be stressed that, for example, the largely socially acceptable reduction of German coal mining after 1945 may be regarded as a brilliant achievement of neo-corporatist crisis management – at least compared with Great Britain, where the radical closure of the coal mining industry by the Thatcher government led to violent conflicts and serious social upheavals.

#### Corporatism as a learning system

The criticism of a lack of representativeness does indeed appear to be justified: if we want to continue to benefit from the successes and advantages of (neo-)corporatist regulation, the system must develop further. Democracy

within the associations is currently an issue that is seldom discussed – unlike in the 1970s, when it preoccupied the association researchers. Instead, researchers today warn about lobbying as a direct and informal, even concealed, method of influencing firms, foundations and associations – beyond established formal participation processes and corporatist institutions. Under the catchword of “post-democracy” they diagnose a concealed domination by powerful economic players that is actually already in existence. Throughout Europe a need for political participation and direct involvement is being heard which (neo-)corporatist institutions will probably have to take up in future if they wish to continue to survive and to go on promoting democracy and social equity.

Businesses and firms, as well as workers, are likely to benefit from the corporative nature of labour relations in Germany. Studies have shown that collective agreements in Germany also have considerable long-range effects on working conditions in firms that are not covered by collective agreements. The collective setting of wages, wage structures and other conditions of employment reduces the burden of negotiation substantially for both the employee and the employer side.

The social insurance system in Germany provides the contributor organisations with extensive rights of participation beyond the ballot paper. And last but not least, the social partners were able to cushion a large amount of the labour market consequences of the 2009 economic crisis at establishment level by means of regulations aimed at securing jobs and increasing the flexibility of working hours.

In the meantime the critical voices have fallen silent on the subject of the “German Model” – to which (neo-)corporatism always also belonged. Instead, the talk is of the “German Jobs Miracle” today. Nonetheless, corporatism should remain adaptable and socially inclusive, for example by including workers in atypical forms of employment more strongly in the employee organisations directly – something that some trade unions are already doing – or involving recipients of basic income support actively in the discussions surrounding benefit rates.

#### Conclusion

Corporatist governance as a learning, open system can help, in the future too, to maintain economic relations that are successful and productive for all parties. In a social market economy it is better not to rock the boat, even if it sometimes sails too slowly – and definitely not in rough waters.

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